

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2002-771

December 23, 2002

BANGOR HYDRO-ELECTRIC COMPANY
Request for Approval of Change
In Capital (§910)

ORDER APPROVING
REORGANIZATION AND
REDUCTION IN CAPITAL

WELCH, Chairman; NUGENT & DIAMOND, Commissioners

I. SUMMARY

On December 9, 2002, Bangor Hydro-Electric Company (BHE or the Company) filed a request for Commission approval of its preferred share redemption program, which constitutes a reduction in capital, pursuant to 35-A M.R.S.A §910. This Order approves the Company's request.

II. ANALYSIS & DECISION

BHE specifically requests approval to call or make a tender offer for 47,430 preferred shares held by approximately 900 shareholders. The shares in question represent roughly \$4.73 million, or 1.0%, of BHE's \$483.29 million in total capitalization as of September 30, 2002. Of that total, \$1.75 million in preferred shares are callable at a premium of 110% of face (or "par") value while another \$0.48 million are callable at par. The remaining \$2.50 million are not callable and thus the Company is preparing a tender offer pending our approval of their request. BHE stated that at its regular meeting on July 31, 2002, its Board of Directors authorized management to implement its redemption program.

BHE must periodically file Forms 10K and 10-Q with the Securities & Exchange Commission (SEC), and also must file Form 8K for special announcements due solely to the existence of these shares. Prior to its acquisition by Emera, Inc., when BHE's common shares were publicly traded, such requirements also applied to its common shares and thus the reporting expense was simply a cost of doing business. The Company states that the administrative burden and associated expense now triggered by securities amounting to roughly 1.00% of total capital is no longer justified. The Company notes in its petition that eliminating these preferred shares will not relieve it of its responsibility of providing properly audited financial statements to the Commission or to the Federal Energy Regulatory Commission (FERC).

Whether or not BHE redeems all of its preferred shares, the requirement for filing the reports noted above with the SEC will be eliminated if the number of preferred shareholders falls below 300. The Company estimates that simply calling the contractually callable shares will bring it down to roughly 450 preferred shareholders.

BHE believes that tendering the remaining non-callable shares at a premium will bring it below the 300-shareholder threshold and may well result in the complete elimination of its preferred shares.

BHE proposes to initially use short-term debt to fund the redemption of the preferred shares and its current short-term interest rate is in the 2.50% to 3.00% range. Due to the fact that interest charges are deductible for income tax purposes and preferred dividend payments are not, this redemption would generate savings for the Company at an interest rate in excess of 9.00%. The Company recently completed a \$20 million 10-Year long-term debt issuance at a cost of 6.10%¹, so there would be savings even if BHE chooses to ultimately finance the redemption with longer-term debt.² The size of the interest rate gap means that BHE would realize benefits even if the tender offer premium is 25% to 50% over par.

Based on a current short-term interest rate of 3.00% and assuming a 25% premium on the non-callable shares, the savings should be in the range of \$100,000 annually before any tax benefits and before any savings in administrative costs. In the event that there were net costs to BHE, such costs would not be borne by ratepayers due to the Company's recently implemented Alternative Regulatory Plan or "ARP." The proposed redemption of preferred shares does not result in the Company disinvesting in its transmission and distribution system nor does it alter BHE's debt to total capital ratio appreciably and therefore its risk profile and cost of equity will be unaffected. We therefore approve the BHE's request.

In approving this request, the Commission does not imply approval of the Company's current or projected capital structure or its current or projected cost of capital for ratemaking purposes. Furthermore, this Order does not limit or restrict the powers of the Commission in determining a capital structure or cost rate in future proceedings.

Accordingly, we

O R D E R

1. That Bangor Hydro-Electric Company is authorized to call or make a tender offer for all 47,340 preferred shares on terms mutually acceptable to the Company and the shareholders.

2. That the Company will report its actions pursuant to this Order to the Commission within 60 days of the closing of the last transaction.

¹ Including issuance expenses, BHE's all-in interest rate was 6.85%.

² Assuming the current level of interest rates.

Dated at Augusta, Maine, this 23rd day of December, 2002.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 21 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.